



Health Services LOS ANGELES COUNTY

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To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.



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October 4, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS)
FISCAL OUTLOOK**

This is to provide DHS' fiscal outlook for Fiscal Years (FY) 2015-16, 2016-17 and 2017-18.

FY 2015-16

The Department closed FY 2015-16 with an ending designation balance of \$407.0 million, an increase of \$56.5 million from the FY 2014-15 closing balance of \$350.5 million. The increase is largely attributable to increased revenues from prior years.

FY 2016-17

The Department is currently projecting a fund balance of \$475.7 million for this fiscal year resulting from additional prior year revenues of \$68.7 million.

Significant Developments Since Last Fiscal Outlook

The Centers for Medicare and Medicaid Services' (CMS) survey to determine the value of the Safety Net Care Pool (SNCP) has been completed. CMS will be fully funding the SNCP at \$236.0 million annually for each year of the 5-year Waiver. The fiscal outlook has been updated accordingly.

The Department is anticipating an AB 85 redirection payback of \$87.5 million for FY 2013-14.

Issues Impacting FYs 2016-17 and 2017-18

Medicaid Managed Care Rule

The Department has not yet included the impact of the Medicaid Managed Care Rules, which became effective in FY 2017-18. While the new rules are expected to negatively affect our Medi-Cal managed care revenues, there is insufficient information and detail available on which to base an estimate. The Department continues to work with the California Department of Health Care Services to mitigate any negative impact.

Disproportionate Share Hospital (DSH) Funding

Pursuant to current federal law, DSH reductions will begin in federal fiscal year 2017-18. It should be noted that in past years when DSH reductions had been scheduled to begin, Congress took action to postpone the DSH cuts. It may be possible that a similar postponement could occur.

FMAP Reductions

There are scheduled reductions in the Federal Medicaid Assistance Percentage (FMAP) for the Medi-Cal Coverage Expansion (MCE) population enacted under the Affordable Care Act. The FMAP for the MCE population decreases from 100% to 95% beginning in calendar year 2017 and to 94% in calendar year 2018. The decreases have been accounted for in the Department's FY 2016-17 budget.

Summary

The Department anticipates having to use fund balance in FY 2017-18 in order to balance its budget. In addition to the factors mentioned above, there are also projected increases in costs due to general cost-of-living increases expected to occur in the health care industry over the coming years. The Department continues to focus efforts on reducing costs, where possible, and maximizing revenues.

If you have any questions or need additional information, please let me know.

MHK:anw
Fiscal Outlook oct 2016.doc
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Attachment

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

County of Los Angeles - Department of Health Services

Forecast *

FY 2015-16 to FY 2017-18

(\$ in millions)

| | A | B | C = A+B | D | E = C+D | |
|--|---------------------|-------------------|---------------------|---------------------|---------------------|------|
| | 2015-16 Closing | Adjustments | 2016-17 Forecast | Adjustments | 2017-18 Forecast | |
| Expenses | | | | | | |
| (1) Salaries & Employee Benefits | \$ 2,306.452 | \$ 104.736 | \$ 2,411.188 | \$ 117.858 | \$ 2,529.046 | (1) |
| (2) Net Services & Supplies | 1,572.025 | 68.775 | 1,640.800 | 40.394 | 1,681.194 | (2) |
| (3) Other Charges | 144.846 | 20.283 | 165.129 | - | 165.129 | (3) |
| (4) Capital Assets | 31.475 | 8.859 | 40.334 | (20.037) | 20.297 | (4) |
| (5) Operating Transfers Out + Capital Projects | 25.301 | 19.775 | 45.076 | (2.625) | 42.451 | (5) |
| (6) Intrafund Transfer | (41.547) | (17.396) | (58.943) | - | (58.943) | (6) |
| (7) Total Expenses | \$ 4,038.550 | \$ 205.033 | \$ 4,243.584 | \$ 135.590 | \$ 4,379.174 | (7) |
| Revenues | | | | | | 0 |
| (8) Medi-Cal Inpatient | \$ 394.477 | \$ 7.345 | \$ 401.822 | \$ 6.530 | \$ 408.352 | (8) |
| (9) GPP | 498.086 | 11.630 | 507.716 | (56.146) | 451.570 | (9) |
| (10) PRIME | 158.987 | 42.353 | 201.340 | - | 201.340 | (10) |
| (11) Managed Care - Base | 582.353 | (79.255) | 503.098 | (0.016) | 503.082 | (11) |
| (12) Managed Care - Supplemental | 309.535 | (1.763) | 307.772 | (0.767) | 307.005 | (12) |
| (13) Mental Health | 56.167 | (3.431) | 52.736 | 0.274 | 53.010 | (13) |
| (14) Whole-Person Care | - | 45.000 | 45.000 | 45.000 | 90.000 | (14) |
| (15) Medi-Cal Outpatient | 75.260 | 3.129 | 78.389 | 2.729 | 81.118 | (15) |
| (16) Medi-Cal CBRC | 163.473 | 4.904 | 168.377 | 5.052 | 173.429 | (16) |
| (17) Medi-Cal SB 1732 | 2.996 | (2.996) | - | - | - | (17) |
| (18) Hospital Provider Fee | 41.054 | 0.000 | 41.054 | - | 41.054 | (18) |
| (19) Federal & State - Other | 26.246 | 8.288 | 34.534 | - | 34.534 | (19) |
| (20) OCD - Other | 290.147 | 17.890 | 308.037 | - | 308.037 | (20) |
| (21) Other | 349.245 | (188.512) | 160.733 | (79.118) | 81.615 | (21) |
| (22) Self-Pay | 8.470 | 1.955 | 10.425 | - | 10.425 | (22) |
| (23) ORCHID Incentive Payments | 18.311 | (2.720) | 15.591 | (5.414) | 10.177 | (23) |
| (24) Medicare | 165.534 | (4.019) | 161.515 | 1.056 | 162.571 | (24) |
| (25) Insurance | 61.983 | 5.034 | 67.017 | - | 67.017 | (25) |
| (26) IHSS | 143.922 | 4.374 | 148.296 | - | 148.296 | (26) |
| (27) AB 85 Redirection | (135.104) | 222.601 | 87.497 | (87.497) | - | (27) |
| (28) Total Revenues | \$ 3,209.145 | \$ 91.804 | \$ 3,300.949 | \$ (168.317) | \$ 3,132.632 | (28) |
| (29) Expenses Less Revenues | \$ 829.405 | \$ 113.229 | \$ 942.635 | \$ 303.907 | \$ 1,246.542 | (29) |
| Operating Subsidy | | | | | | 0 |
| (30) Sales Tax & VLF | \$ 277.716 | \$ 102.552 | \$ 380.268 | \$ - | \$ 380.268 | (30) |
| (31) County Contribution | 340.971 | 21.075 | 362.046 | (0.680) | 361.366 | (31) |
| (32) Measure B | 210.202 | 0.076 | 210.278 | - | 210.278 | (32) |
| (33) Tobacco Settlement | 56.981 | 1.770 | 58.751 | (1.792) | 56.959 | (33) |
| (34) Fund Balance | - | 18.789 | 18.789 | 218.882 | 237.671 | (34) |
| (35) Total Operating Subsidy | \$ 885.870 | \$ 144.262 | \$ 1,030.132 | \$ 216.410 | \$ 1,246.542 | (35) |
| (36) Beginning Designation Balance | \$ 350.495 | | \$ 406.960 | | \$ 475.668 | (36) |
| (37) Change | 56.465 | | 68.708 | | (237.671) | (37) |
| (38) Ending Designation Balance / Deficit | \$ 406.960 | | \$ 475.668 | | \$ 237.997 | (38) |

* The closing and forecast amounts are net of IGTs and other double-counts, such as internal transfers.